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SUBJECT: SCENESETTER FOR ADMIRAL ULRICHT,S VISIT TO GHANA,
FEBRUARY 1-2,2006

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Summary/Introduction

11. (SBU) Introduction/Summary: Ghana is a democratic, market-oriented, pro-American country in a region marked by conflict and authoritarian rule. It has one of the best human rights records in Africa and has made significant efforts to combat trafficking in persons. President John Kufuor just completed the first year of his second term, which has so far been marked by intra-party tensions, sluggish decision-making, and corruption scandals, although his government has picked up some momentum in the past six months. Ghana exerts regional leadership, strongly supports the Global War on Terrorism, and is a committed, major contributor to UN peace keeping operations. Ghana is a member of the IAEA and has a seat on the UN Security Council. Bilateral relations are excellent and broad-ranging. President Kufuor has met President Bush six times, met with former President for the second time in October and earlier this month hosted the successful visit to Ghana of First Lady Laura Bush. Ghana is eligible for U.S. assistance under the Millennium Challenge Account (MCA) and hopes to sign an MCA Compact by mid-2006. End Summary.

U.S.-Ghana Relations

12. (SBU) Ghana is a reliable, democratic partner for the U.S. in peacekeeping, conflict resolution, counter-terrorism, and economic development. U.S. interests center on support for Ghana's fourteen-year-old democracy, promotion of open markets, and the reduction of poverty. Key components of the broad U.S.-Ghana relationship are:

13. (SBU) Democracy: Ghana's December 2004 parliamentary and presidential election, the fourth election under the 1992 constitution, was seen as free, fair and generally peaceful. Ghana has a free, lively media and civil society, a largely independent judiciary and Electoral Commission, and an apolitical military. It generally respects human rights and rule of law. However, the long-term success of Ghana's constitutional democracy is not guaranteed and democratic institutions are weak. While Ghana scores better than many countries in Africa on Transparency International's Corruption Perception Index (Ghana ranks 65 globally on the CPI), corruption is a serious and growing concern. Anti-corruption institutions are weak. We supported the 2004 election with Mission observers and \$1.3 million in election

assistance. We have programs to strengthen parliament, the judiciary, the police and the media.

¶4. (SBU) Development Assistance and Trade: Annual USG assistance to Ghana is approximately \$75 million. This includes one of USAID's largest programs in Sub-Saharan Africa. Ghana receives approximately \$55 million in USAID grant assistance and food aid per year, with a focus on education, health, HIV/AIDS, trade and investment, and democracy and governance. The U.S. and Ghana have a relatively dynamic trade relationship. U.S. exports to Ghana in 2004 increased to approximately \$300 million, a 50% increase over 2003, and Ghana is consistently the fifth or sixth largest market in Africa for U.S. goods. USTR considers Ghana a "pacesetter" country, due to its relative success in diversifying its exports under AGOA.

¶5. (SBU) Security: Ghana provides us excellent cooperation in counter-terrorism and counter-narcotics efforts. We have a robust mil-mil relationship, in part a recognition of Ghana's outstanding contribution to peacekeeping (Ghana is the fourth largest contributor to UN peacekeeping forces worldwide) and to regional stability. Ghana was key to peace efforts in Liberia and Cote d'Ivoire. During last year's Togo crisis, Ghana played a constructive, low-key role, in support of the Economic Community of West African States (ECOWAS). Kufuor served as Chair of the ECOWAS for two terms, ending January 2005. ECOWAS Executive Secretary Mohammed Ibn Chambas is Ghanaian. Ghana has also been welcoming to refugees and currently hosts about 60,000 refugees, mostly Liberian. We support Ghana's regional role through our mil-mil activities, USAID's West Africa Regional Program (WARP) and our Refugee Coordinator Office, both based

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in Accra.

Internal Political Situation

¶6. (SBU) President Kufuor is now just over one year into his second term. This term has been marked by major continuity, in his ministerial appointments, his priority themes, and his slow, sometimes plodding approach to governance. In the first half of this term, the GOG was distracted by corruption allegations and turmoil in Togo and was slow to get organized.

¶7. (SBU) In the second part of last year, the GOG appears to regain some momentum. In response to rising global oil prices and IMF pressure, Kufuor raised petrol prices and established a National Petroleum Authority. The GOG recently made strides toward signing a Millennium Challenge Account (MCA) agreement, submitted a trafficking in persons law to parliament, and eliminated all school fees, thus guaranteeing free primary education for the first time. Kufuor offered Ghana as one of the first two countries to be reviewed in the NEPAD African Peer Review Mechanism.

¶8. (SBU) The backdrop of Ghanaian politics, however, remains highly polarized. The New Patriotic Party (NPP) and National Democratic Congress Party (NDC) are closely matched in parliament, the result of a very close 2004 national election result. Leaders of these two major parties intensely dislike each other. NDC parliamentarians complain that the NPP throws its weight around in parliament, using its majority to force through laws. The NDC retained parliamentary seats in hotly contested by-elections in Asawase (Ashanti Region) in April and Ododiodio (Accra) in August, which rankled the NPP and reenergized the NDC, but did not change the overall political equation. Tensions between the NDC and NPP could worsen as both parties prepare for District Assembly elections in 2006 and presidential/parliamentary elections in 2008.

¶9. (SBU) The NPP and NDC both suffer from intra-party divisions. The President's choice did not prevail in the NPP's closely fought recent election of new party leadership. There are already a number of competitors informally within the NPP in the running to succeed Kufuor, including the Minister of Defense, several other ministers, and the Vice President. The result is grandstanding and friction at the top levels of the bureaucracy.

¶10. (SBU) The NDC, which held its national convention in December, is financially weak and badly divided. The convention reinforced the strong influence in the party of former President J.J. Rawlings. However, there are many in the party (including the camp of former NDC presidential candidate John Atta Mills) who want to distance themselves from the ex-president. There are six other smaller parties in Ghana which also face significant internal divisions as they prepare for the 2008 election.

¶11. (SBU) The Kufuor government has faced new charges of corruption, highlighted by Ghana's free media. Energy Commission Members were forced out under a cloud. The Administration was attacked for alleged corruption in the creation of Ghana International Airlines. Media allegations have linked the President to a corrupt hotel deal, as revealed by an Iraqi-American named Gizelle Yajji, who claims she had an extra-marital affair with the President. (Kufuor denies involvement in the hotel, bought by his son, but the GOG has not commented on the other allegation). Two recently published public opinion polls found that there is a growing perception that corruption is on the rise, especially by the president and his office. In November, the Enquirer newspaper revealed a secretly-recorded tape in which the NPP Party Chairman alleged that government contractors pay kickbacks to the president and his staff. The scandal resulted in the resignation of the party chairman.

Security

¶12. (SBU) Ghana's 8,000 strong military is characterized by its allegiance (at least over the past six years) to elected civilian leadership, as well as a rich peacekeeping tradition

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and a close relationship to the United States. Since 1960, over 80,000 Ghanaian soldiers and police have participated in peacekeeping missions worldwide, including currently in the Democratic Republic of Congo, Lebanon, Liberia, Sierra Leone and Cote d'Ivoire. We provide, or have provided, support through our Excess Defense Articles (EDA) program; the International Military Exchange Training (IMET) program; the Foreign Military Sales (FMS) and Foreign Military Funding (FMF) programs; the Enhanced International Peacekeeping Capabilities (EIPC) program; the African Contingency Operations Training and Assistance (ACOTA) program; and a robust DoD Humanitarian Assistance (HA) program. Ghana will likely receive even more support under the Global Peace Operations Initiative (GPOI). Ghana opened the Kofi Annan International Peacekeeping Training Center (KAIPTC) in 2004, the only center of its kind in West Africa. The United States European Command (EUCOM) provides direct support in the form of a liaison officer who is attached for duty at the KAIPTC, and has provided approximately \$1 million in funding support.

¶13. (SBU) Our mil-mil relationship also includes West Africa Training Cruises and Joint Combined Exchange Training. Ghana is the newest member of the State Partnership Program (SPP), partnered with the North Dakota National Guard (only the second in Sub-Saharan Africa), which will further strengthen mil-mil and civilian-military ties. Ghana participates as an African Fuel Initiative Hub country, and allowed the construction of an Exercise Reception Facility (ERF) at Accra Air Base under an addendum of that Technical Arrangement (TA)

signed in 2005. Ghanaians avidly participate in DOD's Counterterrorism Fellowship program (CTFP). Military visits over the past year included three ship visits, ten General Officer or Flag Officer visits, and a regional maritime and coastal security conference.

¶14. (SBU) Ghana is a strong ally in the Global War on Terrorism. Ghana has signed 12 of 13 UN terrorism conventions and a Customs Mutual Assistance Agreement and has been supportive in urging the IAEA to take the Iran nuclear issue to the UN Security Council. We have excellent police contacts and good cooperation with the police and other security services on matters related to terrorism. There is a growing concern about narcotics and illegal arms trafficking through Ghana, as well as rising crime and fraud problems. We have assisted Ghana's police, customs, and counter-narcotics agencies, including ongoing basic training for the police.

State of the Economy

¶15. (SBU) In 2000, the Kufuor government inherited a distressed economy: high debt levels, accelerating inflation and interest rates, a plummeting currency (the "cedi"), all exacerbated by declining world cocoa and gold prices (the main foreign exchange earners), and rising crude oil prices. Kufuor's government strengthened fiscal and monetary policies considerably, reining in spending and borrowing, and cutting subsidies by imposing badly needed energy and water price increases.

¶16. (SBU) The improved policy performance along with higher cocoa and gold prices since 2002 resulted in higher economic growth, reaching 5.2% in 2003, 5.8% in 2004, and projected at over 5% for 2005. Tight monetary policies since mid-2003 restored confidence in the economy, and the IMF calls the government's control of expenditures during the 2004 election year an "historic achievement." As a result of the improved policies, inflation fell from over 30% in mid-2003 to below 12% for 2004. Although the annual inflation rate rose to 14.8% in 2005 due to high world oil prices, Ghana's Central Bank expects it to fall to single digits for 2006. Key short-term interest rates have also fallen to below 15%. The cedi has been relatively stable against the dollar for over two years.

Positive Economic Trends: MCA and Regional Role

¶17. (SBU) Ghana is becoming a gateway to West Africa, due in part to its political stability and economic reforms, but also due to turmoil in the region. Trade and investment

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flows to and through Ghana are increasing, and businesses, Embassies, NGOs, and international organizations are increasing their presence in Ghana, using it as a regional hub.

¶18. (SBU) In May 2004, the Millennium Challenge Corporation (MCC) designated Ghana eligible for Millennium Challenge Account (MCA) funding. The Ghanaians were slow to organize their MCA team and the process languished for months, sidelined by the 2004 election campaign and subsequent reorganization of the cabinet in early 2005. President Kufuor has pressed the MCC to expedite completion of the Compact negotiations, but the Ghana MCA team, reorganized in June 2005, understands the priority is to complete a quality Compact within a realistic timeline. Ghana now has adequate resources to do the job, with its own \$500,000 budget and the agreement signed August 11 with the MCC for \$3 million of 609g funding. The Ghanaians also now have the right personnel in place, and the \$517 million draft proposal,

focused on agri-business, promises to deliver on both poverty reduction and economic growth. Both the MCC and Ghana MCA team hope to complete a signed and approved Compact by mid-2006.

¶19. (SBU) In July 2004, Ghana reached Completion Point under the Heavily Indebted Poor Country (HIPC) Initiative, resulting in \$4.2 billion debt relief. This achievement also ensured Ghana's eligibility for further debt relief under the G8's Multilateral Debt Relief Initiative (MDRI), unveiled in June 2005. Ghana is also realizing large foreign remittance flows, estimated at approximately \$4 billion in 2005, as well as increasing foreign investment, including from U.S. companies such as Newmont Mining and ALCOA. The government has resolved many of the investment disputes that undermined U.S.-Ghana relations in recent years.

¶20. (SBU) Ghana's impressive performance has not gone unnoticed. Standard and Poor's assigned Ghana a relatively high "B plus" sovereign credit rating. Fitch Rating Agency upgraded Ghana to a "B plus" rating in March 2005, citing HIPC Completion Point, improved economic indicators, and fiscal restraint through the election cycle.

Concerns: Energy, Business Climate, External Shocks

¶21. (SBU) The government faces major challenges in its effort to reform the economy. Ghana has a reputation as a slow and steady reformer, and GoG leaders do not appear to be taking full advantage of the current opportunities. While the Finance Ministry and Central Bank have done an admirable job of implementing macroeconomic reforms, the GoG has been slow to implement the politically sensitive next level of reforms, including privatization of utilities, lowering trade barriers, improving the investment climate, and attacking corruption (especially in the ports). Economic reform lost considerable momentum during the 2004 election year. Many NPP leaders were concerned that the reform effort had not translated into improved living standards for Ghanaian citizens, so pressure increased on President Kufuor to increase spending and delay politically difficult reforms.

¶22. (SBU) High energy costs could undermine the recent real gains in economic growth, and Ghana has had difficulty fulfilling its commitment to the IMF to deregulate the petroleum market. Also, despite Kufuor's promise of a "Golden Age of Business," Ghana remains a difficult and risky place to do business. Contract sanctity and difficulty in obtaining clear land title are concerns. Ghana's congested courts make it difficult to resolve disputes. Due to excessive bureaucracy the average time to start a business exceeds 80 days, high compared to Ghana's peers (i.e., other top performers). This contributes to widespread corruption, as the heavy paperwork and licensing requirements create incentives to bypass normal channels. While the corruption damages Ghana's reputation, it also scares away legitimate investors and diminishes the potential impact of new investment on economic growth and reducing poverty. Finally, Ghana's infrastructure is in poor shape, and its dependence on commodity exports (gold, cocoa, timber) leaves it highly vulnerable to external shocks.

Economic Outlook

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¶23. (SBU) Despite these concerns, the overall outlook is positive. If Ghana maintains fiscal and monetary discipline, world oil prices stabilize, and favorable external conditions continue for gold and cocoa, the economy should remain stable and continue to grow at the rate of 5 to 6% per year.
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